

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Battle Creek Area Transportation Study	County Calhoun
Audit Date 9/30/05	Opinion Date 11/28/05	Date Accountant Report Submitted to State: 1/31/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

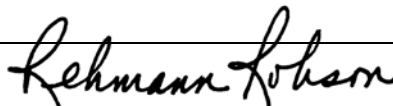
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 			Date 1/31/06	

BATTLE CREEK AREA TRANSPORTATION STUDY



Springfield, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
September 30, 2005**



REHMANN ROBSON

Certified Public Accountants

BATTLE CREEK AREA TRANSPORTATION STUDY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements for the Year Ended September 30, 2005	
Statement of Net Assets	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-8
Supplemental Schedules	
Schedule of Expenses by Funding Source – Budget and Actual	9-10
Schedule of Allowable Costs (Exclusive of Costs Provided by Local Governments)	11

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 28, 2005

Policy Committee
Battle Creek Area Transportation Study
City of Battle Creek, Michigan

We have audited the accompanying basic financial statements of the ***Battle Creek Area Transportation Study*** as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Study's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Battle Creek Area Transportation Study*** as of September 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Study has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the ***Battle Creek Area Transportation Study***. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all materials respects in relation to the basic financial statements taken as a whole.

FINANCIAL STATEMENTS

Battle Creek Area Transportation Study

Statement of Net Assets

September 30, 2005

Assets

Current assets:

Cash	\$ 25
Accounts receivable	47
Due from grantor agencies	47,955
Due from City of Battle Creek	<u>10,290</u>

Total current assets 58,317

Capital assets, net 606

Total assets 58,923

Liabilities

Current liabilities:

Accounts payable	4,126
Accrued payroll	2,037
Due to grantor agencies	5,487
Accrued compensated absences	<u>6,318</u>

Total liabilities 17,968

Net assets

Invested in capital assets	606
Unrestricted	<u>40,349</u>

Total net assets \$ 40,955

The accompanying notes are an integral part of these financial statements.

Battle Creek Area Transportation Study

Statement of Activities

For the Year Ended September 30, 2005

Program revenue - operating grants and contributions

Federal grants:

Federal Highway Administration	\$ 112,954
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Federal Transit Administration	22,758
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State grant	15,957
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Local government contributions:

City of Battle Creek	22,328
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Calhoun County Road Commission	15,186
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City of Springfield	2,098
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Other revenue	137
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Total program revenue	<u>191,418</u>
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Expenses - transportation studies

Data collection and analysis	64,610
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Long range transportation planning	27,185
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Short range transportation planning	389
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Special projects and studies	34,569
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Public involvement	7,389
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Program development and management	48,262
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Total expenses	<u>182,404</u>
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Change in net assets	9,014
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Net assets, beginning of year	<u>31,941</u>
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Net assets, end of year	<u><u>\$ 40,955</u></u>
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The accompanying notes are an integral part of these financial statements.

Battle Creek Area Transportation Study

Statement of Cash Flows

For the Year Ended September 30, 2005

Cash flows from operating activities:

Receipts from other governments	\$ 180,423
Payments to employees	(139,486)
Payments to suppliers	<u>(40,511)</u>

Net cash provided by operating activities	426
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Cash flows used in capital and related financing activities:

Acquisition of capital assets	<u>(426)</u>
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Net increase in cash	-
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Cash, beginning of year	<u>25</u>
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Cash, end of year	<u><u>\$ 25</u></u>
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Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 9,014
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	4,371
Changes in assets and liabilities:	
Receivables	(15,116)
Due from City of Battle Creek	1,992
Accounts payable	(2,119)
Accrued expenses	(1,837)
Due to grantor agencies	<u>4,121</u>

Net cash provided by operating activities	<u><u>\$ 426</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Battle Creek Area Transportation Study (“Study”) is an intermunicipality committee organized under Michigan Public Act 200 of 1957. The Study’s purpose is to assist in the development and preservation of a safe, effective, well-maintained, efficient, and economical transportation system for the Battle Creek metropolitan area which minimizes its negative impacts on the physical and social environments and related land use. The Study is not a component unit of any other government.

Basis of Accounting

The Study uses a single proprietary or enterprise fund to account for and report its financial activities. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Study follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Study has elected not to follow subsequent private-sector guidance.

Cash

The Study’s cash consists of \$25 in petty cash on hand. The Study does not maintain its own depository accounts. The City of Battle Creek (a member government of the Study) maintains accounting records, deposits cash receipts and processes cash disbursements through the City’s pooled cash accounts. The amount reported as due from City of Battle Creek at year end represents the balance of the Study’s interest in the pooled cash account of the City at year end.

Capital Assets

Equipment is recorded at cost and is depreciated using the straight-line method over estimated useful lives of three to five years.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

Compensated Absences

It is the Study's policy to permit employees to accumulate earned but unused vacation leave pay benefits up to a maximum of fifteen days or the equivalent of three normal work weeks. All vacation pay is accrued when incurred since 100 percent of the unused benefits are payable upon employee separation from service with the Study.

2. DUE FROM/TO GRANTOR AGENCIES

Amounts reported as due from and due to grantor agencies represent the difference between costs eligible for reimbursement and the amount received to date. The details of amounts due from and due to grantor agencies are as follows:

	<u>Due from Grantor Agencies</u>	<u>Due to Grantor Agencies</u>
FHWA, Section 112		
Billed	\$ 24,781	\$ -
2003 cost settlement	-	786
2004 cost settlement	3,276	-
2005 cost settlement	-	3,123
Total FHWA, Section 112	<u>28,057</u>	<u>3,909</u>
FTA, Section 8		
Billed	5,093	-
2003 cost settlement	-	197
2004 cost settlement	708	-
2005 cost settlement	-	632
Total FTA, Section 8	<u>5,801</u>	<u>829</u>
MDOT, M-Fund		
Billed	13,859	-
2003 cost settlement	-	383
2004 cost settlement	238	-
2005 cost settlement	-	366
Total MDOT - M-Fund	<u>14,097</u>	<u>749</u>
Total	<u>\$ 47,955</u>	<u>\$ 5,487</u>

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, being depreciated - Equipment	\$ 51,385	\$ 426	\$ 3,710	\$ 48,101
Less accumulated depreciation for - Equipment	<u>46,834</u>	<u>4,371</u>	<u>3,710</u>	<u>47,495</u>
Capital assets, net	<u>\$ 4,551</u>	<u>\$ (3,945)</u>	<u>\$ -</u>	<u>\$ 606</u>

4. OPERATING LEASES

The Study leases office space from the City of Springfield (a member government of the Study) under an operating lease. The lease is a ten-year non-cancelable operating lease requiring annual payments of \$4,000 through October 2012. The following is a schedule of future minimum lease payments required under this operating lease as of September 30, 2005:

<u>Years Ending September 30</u>	<u>Amount</u>
2006	\$ 4,000
2007	4,000
2008	4,000
2009	4,000
2010	4,000
2011-2013	<u>12,000</u>
Total	<u>\$ 32,000</u>

During the year ended September 30, 2005, the Study had rent expense of \$4,000.

BATTLE CREEK AREA TRANSPORTATION STUDY

Notes To Financial Statements

5. DEFINED CONTRIBUTION PENSION PLAN

The Study provides pension benefits for all of its employees through a defined contribution pension plan. The plan requires the Study to contribute 15% of each qualified employee's base salary to the plan. Plan provisions and contribution requirements are established and may be amended by the Study's Policy Committee. The Study made the required contribution of \$15,242 for the year ended September 30, 2005.

6. RISK MANAGEMENT

The Study is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2005, the Study carried commercial insurances to cover all risks of losses. The Study has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

7. RELATED PARTY TRANSACTIONS

As discussed previously, the Study has entered into certain agreements with member governments. The two agreements are with the City of Battle Creek for accounting services and with the City of Springfield for the lease of office space. During the year ended September 30, 2005, the Study paid accounting service fees to the City of Battle Creek in the amount of \$3,300 and rent expense to the City of Springfield in the amount of \$4,000.

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SUPPLEMENTAL SCHEDULES

Battle Creek Area Transportation Study
Schedule of Expenses by Funding Source - Budget and Actual
For the Year Ended September 30, 2005

Work Element	Description	Federal Highway Administration			
		Section 112 Funds Project Agreement #2003-0001(Z6) (Job#73442)		Local Match	
		Budget	Actual	Budget	Actual
DATA COLLECTION & ANALYSIS					
1.0000	Data Collection and Analysis	\$ 35,087	\$ 33,089	\$ 7,780	\$ 7,337
1.0040	Asset Management	1,397	805	310	179
		<u>36,484</u>	<u>33,894</u>	<u>8,090</u>	<u>7,516</u>
LONG RANGE TRANSPORTATION PLANNING					
2.0428	2030 Long Range Transportation Plan	<u>19,003</u>	<u>18,913</u>	<u>4,214</u>	<u>4,194</u>
SHORT RANGE TRANSPORTATION PLANNING					
2.0520	Short Range Transit Planning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL PROJECTS AND STUDIES					
2.0601	Transportation Improvement Program	10,292	9,627	2,282	2,134
2.0618	Coord. with Statewide Planning	3,477	2,612	771	579
2.0619	Special Studies	4,249	1,749	942	388
2.0641	Safety Conscious Planning	4,959	3,035	1,100	673
2.0643	Freight Planning	1,332	-	295	-
2.0645	Air Quality Planning	6,891	6,382	1,528	1,415
	Subtotal	<u>31,200</u>	<u>23,405</u>	<u>6,918</u>	<u>5,189</u>
PUBLIC INVOLVEMENT					
3.0000	Public Involvement	7,552	2,197	936	487
3.0001	Transportation and Safety Education	6,680	2,943	1,220	653
	Subtotal	<u>14,232</u>	<u>5,140</u>	<u>2,156</u>	<u>1,140</u>
PROGRAM DEVELOPMENT AND MANAGEMENT					
4.0102	Unifies Work Program	3,230	2,145	974	476
4.0103	Program Management	34,187	29,457	6,236	6,532
	Subtotal	<u>37,417</u>	<u>31,602</u>	<u>7,210</u>	<u>7,008</u>
TOTAL		<u><u>\$ 138,336</u></u>	<u><u>\$ 112,954</u></u>	<u><u>\$ 28,588</u></u>	<u><u>\$ 25,047</u></u>

Federal Transit Administration			
Section 8 Funds			
Project Agreement			
#2003-0001(Z5) (Job#73581)		Local Match	
Budget	Actual	Budget	Actual
\$ 6,052	\$ 5,707	\$ 1,513	\$ 1,427
152	87	38	22
6,204	5,794	1,551	1,449
3,278	3,262	819	816
2,249	311	562	78
2,515	2,353	629	587
378	284	94	71
733	302	183	75
1,212	742	303	185
-	-	-	-
1,189	1,101	297	275
6,027	4,782	1,506	1,193
1,302	379	326	95
1,152	508	288	127
2,454	887	614	222
789	524	197	131
8,354	7,198	2,088	1,799
9,143	7,722	2,285	1,930
\$ 29,355	\$ 22,758	\$ 7,337	\$ 5,688

Continued...

Battle Creek Area Transportation Study
Schedule of Expenses by Funding Source - Budget and Actual (Concluded)
For the Year Ended September 30, 2005

Michigan Department of Transportation					
100% Reimbursed					
Asset Management					
Work		#2003-0005(Z3) (Proj.#MTF)		Totals	
Element	Description	Budget	Actual	Budget	Actual
DATA COLLECTION & ANALYSIS					
1.0000	Data Collection and Analysis	\$ -	\$ -	\$ 50,432	\$ 47,560
1.0040	Asset Management	33,894	15,957	35,791	17,050
		33,894	15,957	86,223	64,610
LONG RANGE TRANSPORTATION PLANNING					
2.0428	Update the 2025 Transportation Plan	-	-	27,314	27,185
SHORT RANGE TRANSPORTATION PLANNING					
2.0520	Short Range Transit Planning	-	-	2,811	389
SPECIAL PROJECTS AND STUDIES					
2.0601	Transportation Improvement Program	-	-	15,718	14,701
2.0618	Coord. with Statewide Planning	-	-	4,720	3,546
2.0619	Special Studies	-	-	6,107	2,514
2.0641	Safety Conscious Planning	-	-	7,574	4,635
2.0643	Freight Planning	-	-	1,627	-
2.0645	Air Quality Planning	-	-	9,905	9,173
	Subtotal	-	-	45,651	34,569
PUBLIC INVOLVEMENT					
3.0000	Public Involvement	-	-	10,116	3,158
3.0001	Transportation and Safety Education	-	-	9,340	4,231
	Subtotal	-	-	19,456	7,389
PROGRAM DEVELOPMENT AND MANAGEMENT					
4.0102	Unifies Work Program	-	-	5,190	3,276
4.0103	Program Management	-	-	50,865	44,986
	Subtotal	-	-	56,055	48,262
TOTAL		\$ 33,894	\$ 15,957	\$ 237,510	\$ 182,404

Battle Creek Area Transportation Study
Schedule of Allowable Costs
(exclusive of costs provided by local governments)
For the Year Ended September 30, 2005

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Salaries and wages	\$ 58,535	\$ 28,628	\$ 87,163
Fringe benefits	33,904	16,582	50,486
Office supplies	-	1,646	1,646
Printing and copying	-	484	484
Postage	-	398	398
Membership and subscriptions	-	184	184
Professional services	-	2,761	2,761
Bookkeeping services	-	3,300	3,300
Training and travel	-	1,752	1,752
Communications	-	2,529	2,529
Insurance and bonds	-	4,086	4,086
Office equipment maintenance	-	45	45
Rent	-	4,000	4,000
Depreciation	-	4,371	4,371
	<u>\$ 92,439</u>	<u>\$ 70,766</u>	<u>\$ 163,205</u>
Other direct costs	<u>\$ 4,066</u>		
Indirect costs as a percentage of direct payroll and fringe benefits		<u>76.554%</u>	
Fringe benefits as a percentage of salaries and wages			<u>57.921%</u>
Fringe benefit detail			
Vacation, sick and holidays	\$ 9,943	\$ 4,863	\$ 14,806
Social security and Medicare	5,136	2,512	7,648
Retirement contribution	10,236	5,006	15,242
Health and welfare	7,780	3,805	11,585
Workers' compensation and unemployment	809	396	1,205
	<u>\$ 33,904</u>	<u>\$ 16,582</u>	<u>\$ 50,486</u>



REHMANN ROBSON

Certified Public Accountants

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November 28, 2005

To the Policy Committee of the
Battle Creek Area Transportation Study
Springfield, Michigan

We have audited the financial statements of the ***Battle Creek Area Transportation Study*** for the year ended September 30, 2005, and have issued our report thereon dated November 28, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Battle Creek Area Transportation Study. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Study are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Study during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Battle Creek Area Transportation Study financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Study, either individually or in the aggregate, indicate matters that could have a significant effect on the Battle Creek Area Transportation Study financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Battle Creek Area Transportation Study auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Battle Creek Area Transportation Study, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style.

Battle Creek Area Transportation Study

Comments and Recommendations

For the Year Ended September 30, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated November 28, 2005 on the financial statements of Battle Creek Area Transportation Study.

Accounting for Capital Assets

The Government Finance Officers Association (GFOA) has established three recommended practices for governments that relate to the accounting for capital assets, which can be found on their website at <http://www.gfoa.org/services/rp/caafr.shtml>. In the first recommended practice titled "Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets," the GFOA recommends that capitalization thresholds not be established at an amount less than \$5,000 for any individual item. The second recommended practice relates to establishing estimated useful lives of capital assets. The last practice recommends guidelines to ensure control over noncapitalized items.

Currently equipment is recorded at cost with no stated capitalization threshold and is depreciated over estimated useful lives of three to five years. We recommend that the Agency review the GFOA's recommended practices and consider modifying its current policy on capital assets.

* * * * *